

of this—it is a negotiated contract for, let us assume, \$100,000—we would have a right then to go back and examine the records of company A—the cost records, direct and indirect, to determine how much it cost him to perform that contract and, of course, that would be—

Senator NELSON. You are not talking about production costs?

Mr. SHNITZER. We are talking about production costs, we are talking about direct costs and indirect costs incurred in the performance of the contract; yes.

Senator NELSON. But did I understand that there is still another provision of the statute that when these are published prices, you cannot go back?

Mr. SHNITZER. No. This is a separate statute. There are two statutes. One statute relates to the Truth-In-Negotiations Act, Public Law 87-653. Most of these contracts, I believe would be exempt, at least, many of them would be exempt, from the provisions of Truth-In-Negotiations Act because the price is based on catalogue price, and so on.

However, regardless of whether the prices are based on catalogue prices, regardless of the application of Truth-In-Negotiations Act, we still have a provision in the contract, so long as it is negotiated, which gives us access to the contractor's records.

Senator NELSON. But access in order to determine his cost of production?

Mr. SHNITZER. Yes, sir.

Mr. STAATS. The distinction—

Senator NELSON. I thought you said that that was not the case. You are saying that this provision requires that in negotiated contracts the supplier must agree that you may examine all of his production costs before or after?

Mr. SHNITZER. After.

Mr. STAATS. After. And this is the essential point.

Senator NELSON. But he still has to supply you the cost of production figures.

Mr. STAATS. That is right. After the contract award, Mr. Chairman, whereas the Truth-In-Negotiations Act laws goes to the negotiation itself, and here is the question of the exemption that Mr. Shnitzer and I have referred to.

Senator NELSON. Well, now, the largest number of purchases by the Veterans' Administration and the Defense Department are repeat purchases. That is, every year the purchase of certain antibiotics and certain analgesics, are repeated. I would suppose such is the case for 90 odd percent of such drugs.

Has any one of these agencies ever requested the GAO to post-audit the negotiated contract for costs?

Mr. STAATS. The answer, I guess, is no. We could do it on our own. To be candid we could do this on our own after the award of the contract.

Senator NELSON. Well, in view of your examination of the purchasing practices of the various agencies, do you think it would be a valuable service to do some of this kind of checking on negotiated contracts, at least the big ones?

Mr. STAATS. This is something we have had some discussion on, Mr. Chairman.